



DEPARTMENT OF THE ARMY
HEADQUARTERS UNITED STATES ARMY FORCES COMMAND
1777 HARDEE AVENUE SW
FORT MCPHERSON GEORGIA 30330-1062

REPLY TO
ATTENTION OF

S: 24 May 2001

AFLG-PR

14 Sep 2000

MEMORANDUM FOR Directors of Contracting

SUBJECT: Contracting Information Letter (CIL) 00-40, Contractor Performance Incentives and Award Term Contracts

1. Reference:

a. Memorandum, SAAL-PM, 14 Jan 2000, subject: Contractor Performance Incentives (encl 1);

b. Memorandum, SAAL-PP, 31 May 2000, subject: Award Term Contracts (encl 2); and

c. Email message to Directors of Contracting, 5 Jul 00, subj: Award Term Contracts (ATC).

2. FORSCOM Directorates of Contracting (DOC) are encouraged to construct successful business relationships that improve the quality of products and services provided to your customers. We recommend that each contracting professional review the final report, Constructing Successful Business Relationships—Innovation in Contractual Incentives. This report is available electronically at the website provided in Reference 1.a. We support Mr. Hoeper's request for the acquisition workforce, in partnership with contractors, to use market surveys to determine what factors will motivate contractors and experiment with innovative business strategies.

3. Incentive Contracting is one of ten DA Special Interest Areas for FY 2001. Use a range of innovative and meaningful contractual incentives that ensure timely delivery of the highest quality goods and services at the best value to the Army and apply contractual incentives that reduce the total cost of goods/services. Contracting professionals must use innovative business strategies that emphasize the desired outcomes of procurements. Use market research to determine what factors will motivate potential contractors for individual acquisitions and then develop compatible contractual incentives and business arrangements when developing acquisition strategies and negotiating contracts.

AFLG-PR

SUBJECT: Contracting Information Letter (CIL) 00-40, Contractor Performance Incentives and Award Term Contracts

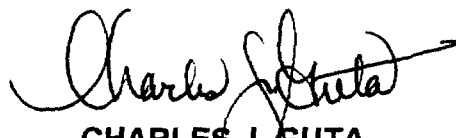
4. The current re-solicitation for the Installation Support Contract at Fort Irwin, CA includes a cost under-run incentive provision in addition to the AF Incentive. The cost under-run incentive provision allows the contractor to share in every dollar (direct labor dollars only) that he brings the contract in under contract value. However, in order to be able to share in the under-run, the contractor must maintain an Award Fee Performance Score of 80 percent (average for the year). If the average performance score is below 80 percent the contractor cannot share in any under-run. The objective in using an award fee is to focus primarily on contract performance. In using the under-run provision, the contractor is motivated to continuously seek methods to become more efficient in his operations (and not at the cost of effectiveness) and to allow contract dollars to be de-obligated ("returned to the Govt"), unlike the current situation where he has no incentive to do so and will execute to the contract value.

5. The Deputy Assistant Secretary of the Army, Dr. Kenneth J. Oscar, introduced a new incentive concept incorporating the benefits of commercial practice in partnering in his memorandum at Reference 1.b. Included is procedural guidance for using Award Term Contracts that also provides a sample Award Term Plan and an Award Term Clause. The ATC concept is based on the award fee process in FAR 16.4, with changes to adapt to a term addition or reduction based directly on performance.

6. We have been asked to run a three-year pilot on this concept with an annual report due each year. We urge you to immediately review your Annual Acquisition Plan and identify requirements that would benefit from using this new incentive. In order to meet our suspense to Department of the Army, you are requested to provide your first assessment to this office by 24 May 2001. Negative reports are required.

7. Contact Mrs. Pat Boterweg, (404) 464-6207/DSN 367-6207, or email boterweg@forscom.army.mil for more information regarding this CIL.

2 Encls
as


CHARLES J. GUTA
Colonel, AG
Chief, Contracting Division, DCSLOG
Principal Assistant Responsible
for Contracting



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
ACQUISITION LOGISTICS AND TECHNOLOGY
103 ARMY PENTAGON
WASHINGTON DC 20310-0103

14 JAN 2000

SAAL-PM

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Contractor Performance Incentives

Over the past year, the Deputy Assistant Secretary of the Army (Procurement) has been examining how the Army constructs its business relationships with existing and potential contractors. Understanding the procurement business case and crafting an effective contractual incentive strategy with our contractors can reduce total cost of ownership for weapon systems and equipment.

The results of this study are documented in the enclosed report, which is posted at the following website <http://acqnet.sarda.army.mil/library/study/study.htm>. I am distributing the study to every contracting and program office to center attention on constructing successful business relationships that improve the quality of the products/services provided to the user. An Integrated Product Team (IPT) has been chartered to develop an Incentive User Guide based on this study. This Guide will assist the acquisition workforce in applying contractual incentives more effectively. The Guide is scheduled for release in May 2000.

In the meantime, I urge you, in partnership with your contractors, to jointly focus on understanding the business case associated with each procurement. Utilize market surveys to determine what factors will motivate contractors and experiment with innovative business strategies that emphasize your desired outcomes.

My points of contact for this action are Tom Colangelo, commercial (703) 681-7558, DSN 761-7558, colanget@sarda.army.mil and Kimberly Ritacco, commercial (703) 681-1031, DSN 761-1031, ritaccok@sarda.army.mil.

Paul J. Hoyer
Assistant Secretary of the Army
(Acquisition, Logistics and Technology)

Enclosure





REPLY TO
ATTENTION OF

SAAL-PP

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
ACQUISITION LOGISTICS AND TECHNOLOGY
103 ARMY PENTAGON
WASHINGTON DC 20310-0103

31 MAY 2000

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Award Term Contracts

Recently Mr. Hoeper sent you a memorandum encouraging the use of contract incentives. The purpose of this message is to introduce to you an incentive concept which incorporates the benefits of commercial practice in partnering. It enables the Government to form long-term relationships with proven producers of quality products and services. It also enables suppliers to make investments in process improvements that few companies would make when dealing with short-term awards and frequent recompetitions, which put their investments at risk.

Award Term Contracts establish stable partnering relationships which enable suppliers to provide long-term sources of quality services. This concept is based primarily on the award fee process in FAR 16.4, with changes to adapt to a term addition. The award term plan is designed to incentivize the contractor to execute orderly transition of workload, provide superior support for the Government, and control prices through extensions or reductions of the term, based directly on performance. For example, a contract may be extended beyond the base period of performance for superior performance or reduced because of poor performance. Thus, the term of a contract period could extend from a minimum of five years to a maximum of fifteen years, depending on the performance of the contractor as measured against a set of "award term criteria".


An "award term review board" should meet at least semi-annually, providing feedback to the contractor as to his level of performance. A "term determining official" will be appointed and will award positive or negative points based on contractor performance (see Attachment 1. Award Term Plan, for specific criteria). The "Award Term Clause", Attachment 2 will be incorporated in the contract.

Please run a 3-year pilot on this concept and provide an assessment to me at the end of each year. The first assessment should reach my office not later than May 31, 2001. Your submission should include, as a minimum, the contract number, a description of the contractual effort.

estimated cost savings or cost avoidance, and a description of the contractor's level of performance (i.e., excellent, satisfactory, poor).

I believe use of Award Term incentives will be most useful in cases where during the source selection, industry commits to productivity increases each year such as cost reduction or reliability growth. The term would be extended for exceeding these productivity increases; thus encouraging long term relationships as a reward for productivity growth.

If you have questions regarding this new initiative, please contact Mrs. Esther Morse at 703-681-1040 (DSN 761-1040) or E-mail her at esther.morse@sarda.army.mil.



Kenneth J. Oscar
Deputy Assistant Secretary of the Army
(Procurement)

Attachments

DISTRIBUTION:

PRINCIPAL ASSISTANTS RESPONSIBLE FOR CONTRACTING
HQ. U.S. Army Materiel Command. ATTN: AMCRDA-AC (PARC).
5001 Eisenhower Avenue, Alexandria, VA 22333-0001

U.S. Army Aviation and Missile Command. ATTN: AMSAM-AC.
Building 4488. Redstone Arsenal. AL 35898-5000

U.S. Army Materiel Command Acquisition Center. ATTN: AMSSB-AC.
4113 Susquehanna Avenue. Aberdeen Proving Ground. MD
21005-5002.

U.S. Army Communications-Electronics Command. ATTN: AMSEL-AC.
Building 1208E, Fort Monmouth, NJ 07703-5000

U.S. Army Industrial Operations Command. ATTN: AMSIO-AC.
Building 350. 5th Floor. N Wing. Rock Island, IL 61299-6000

U.S. Army Tank-automotive and Armaments Command. ATTN:
AMSTA-AQ. Building 231, Warren, MI 48397-5000

Defense Supply Service - Washington. 5200 Army Pentagon.
Washington. DC 20310-5200

SAMPLE OF AN AWARD-TERM PLAN-

1.0 INTRODUCTION

This is the basis for evaluation of the contractor's performance and for presenting an assessment of that performance to the Term Determining Official (TDO). The evaluation for the amount of term points to be awarded will begin at the start of the contract.

Award Term Contracting is effective when:

- performance metrics are objective,
- a long-term business relationship is of value to the Government and the contractor, and
- the expected outcomes are known up-front.

The specific criteria and procedures used to assess the contractor's performance and to determine the amount of award term earned are described herein. All TDO decisions regarding the points, including but not limited to the amount of the award term points, if any; the methodology used to calculate the points; the calculation of the points; the contractor's entitlement to the points; and the nature and success of the contractor's performance, are final and **not** subject to dispute.

The award term will be provided to the supplier through unilateral contract modifications based upon points earned as determined by the TDO.

2.0 ORGANIZATION

The award-term organization consists of: the Term Determining Official (TDO); an Award Term Review Board (ATRB), which consists of a chairperson, the contracting officer, a recorder, other functional area participants, advisory members, and the performance monitors.

3.0 RESPONSIBILITIES

a. Term Determining Official. The TDO approves the award-term plan and any significant changes. The TDO reviews the recommendation(s) of the ATRB, considers all pertinent data, and determines the earned award term points for each evaluation period. The TDO appoints the ATRB Chairperson.

b. Award Term Review Board Chairperson. The ATRB Chairperson chairs the meetings of the ATRB and appoints the non-mandatory members of the board and the performance monitors. The ATRB chairperson briefs the TDO on recommended earned term amounts and the contractor's overall performance and recommends award term plan changes to the TDO.

c. Award Term Review Board. ATRB members review performance monitors' evaluation of the contractor's performance, consider all information from pertinent sources, prepare interim performance reports, and arrive at the earned award term points recommendation to be

presented to the TDO. The ATRB will also recommend changes to this plan. An assessment of the contractor's performance will be done on a yearly basis.

d. ATR Recorder. The ATRB recorder is responsible for coordinating the administrative actions required by the performance monitors, the ATRB and the TDO.

e. Contracting Officer (KO). The KO is the liaison between Contractor and Government personnel. The KO evaluates the award term points available subsequent to the TDO decision and modifies the contract period of performance, if necessary, to reflect the decision.

f. Performance Monitors. Performance monitors maintain written records of the contractor's performance in their assigned evaluation area(s) so that a fair and accurate evaluation is obtained. Monitors prepare interim and end-of-period evaluation reports as directed by the ATRB.

4.0 AWARD-TERM PROCESSES

a. Available Award Term Points. The earned award term points will be based on the contractor's performance during each evaluation period. An accumulation of positive points (i.e. +50, +75 or +100) is required for a one-year term extension and an accumulation of negative points (i.e. -50, -75, or -100) results in a one-year reduction in the contract period. It is important that the point system be tailored to the particular acquisition.

b. Evaluation Criteria. If the KO does not give specific notice in writing to the contractor of any change to the evaluation criteria prior to the start of a new evaluation period, then the same criteria listed for the preceding period will be used in the following award-term evaluation period. Modifications to the plan shall take effect in the next evaluation period.

c. Interim Evaluation Process. Interim evaluations will be conducted at least every six months. At the discretion of the TDO, interim evaluations may take place more frequently (i.e. major milestones). The ATRB Recorder notifies each ATRB member and performance monitors 14 calendar days before the midpoint of the evaluation period. Performance monitors submit their evaluation reports to the ATRB 21 calendar days after this notification. The ATRB determines the interim evaluation results and notifies the contractor of the strength and weaknesses for the current evaluation period. The KO may also issue letters at any other time when it is deemed necessary to highlight areas of Government concern.

d. End-of-Period Evaluations. The ATRB Recorder notifies each ATRB member and performance monitor 14 calendar days before the end of the evaluation period. The contractor presents its self-assessment to the KO within five working days after the end of the evaluation period. This written assessment of the contractor's performance throughout the evaluation period may also contain any information that may be reasonably expected to assist the ATRB in evaluating its performance. The self-assessment may not exceed 25 pages. Performance monitors submit their evaluation reports to the ATRB 14 calendar days after the end of the

evaluation period. The ATRB forwards copies to the contractor. The performance monitors provide oral presentations to the ATRB 21 days after the end of evaluation period. The contractor is then given an opportunity to address the performance monitor evaluations. The ATRB prepares its evaluation report and recommendation of earned or unearned award-term-points. The ATRB briefs the evaluation report and recommendation to the TDO within 30 calendar days after the end of the evaluation period. The TDO determines the overall award-term-points for the evaluation period within 45 calendar days after each evaluation period. The TDO letter informs the contractor of the earned-award-term-points and the total cumulative points. Upon the accumulation of sufficient award -term-points, the KO issues a modification within 15 calendar days after the TDO's decision is made authorizing, an award extension or reduction based on the earned or unearned award-term points.

5.0 AWARD-TERM PLAN CHANGE PROCEDURE

Proposed changes to the award-term plan will be bilateral. If either party desires a change to the award term plan and a mutual agreement cannot be reached, the original award term plan will remain in effect.

AWARD TERM CLAUSE

In addition to the terms set forth elsewhere in the contract, the contractor may earn an extension or reduction to the contract period from a minimum of 5 to a maximum of 10 years on the basis of performance during the evaluation periods. The contractor is evaluated during the first year of performance, but extensions or reductions start in the second year. If scores are very good during Year 2, the contractor earns Year 4; if scores are very good in Year 3, the contractor earns Year 5. In Year 5, the contractor must earn a score of excellent in order for the contract period to be extended beyond Year 5. Consistent scores of excellent during succeeding years earn contract period extensions up to a maximum of 10 years.

The contract period may also be reduced based on the contractor's performance against the stated performance parameters. Points are awarded or deducted during each year of the contract based on how the contractor performed against the predetermined criteria. The contract period is then extended or reduced to reflect this assessment.

(a) Award Term. The award term concept is an incentive that permits extension of the contract period beyond the base period of performance for superior performance or reduction of the contract period of performance because of poor performance.

(b) Term Points. Positive or negative points are accumulated during each evaluation period, based upon the contractor's performance. An accumulation of positive points (i.e. +50, +75, or +100) is required for a one-year term extension and an accumulation of negative points (i.e. -50, -75, 05 -100) results in a one-year reduction in the contract period.

(c) Monitoring of Performance. The contractor's performance will be continually monitored by the performance monitors whose findings are reported to the Award Term Review Board (ATRB). The ATRB recommends an award term to the Term Determining Official (TDO), who makes the final decision of the award term amount based on the contractor's performance during the award term evaluation period.

(d) Award Term Plan. The evaluation criteria, the associated points, and the associated award term extensions or reductions are specified in the award term plan.

(e) Modification of Award Term Plan. Changes may be made to the award term plan at any time during contract performance, provided that both parties agree to the changes. If agreement cannot be reached on changes, the initial award term plan remains in effect.

(f) Self-Evaluation. The contractor will submit to the Contracting Officer (KO) within five (5) working days after the end of each award term evaluation period, a brief written self-evaluation of its performance for that period. This self-evaluation shall not exceed 25 pages. This self-evaluation will be used in the ATRB's evaluation of the contractor's performance during this period.

(g) Disputes. Decisions regarding the award term, including but not limited to, the amount of the award term if any; the methodology used to calculate the award term; the calculation of the award term; the supplier's entitlement of the award term; and the nature and success of the contractor's performance are made by the TDO. These decisions are final and are not subject to dispute.

(h) Award Term Extension. The contract period may be modified to reflect the TDO decision. The total contract-ordering period, including extensions under this clause, will not exceed 10 years. The award term provision must be included in the solicitation and resulting contract. If at any time the contract period does not extend more than two years from the TDO decision, the operation of the award term provision will cease and the ordering period will not extend beyond the term set at that time.